

NEW SCHOOL MANIFESTO

An argument for data-driven deal making



TRADITIONAL DEAL MAKING IS DEAD.

Whether you're in private company M&A or investing, the time to overhaul the science (and art) of deal making is at hand. Although the trillions of dollars in both investor and corporate bank accounts is driving record deal volume, it is also increasing competition and driving down returns. To beat the market, deal makers of all types must reinvent their craft. Companies are transacting at earlier stages and operators are increasingly educated and savvy. If firms aren't identifying, building relationships with, and demonstrating value to prospects early in their lifecycle, they will be left by the wayside. And relying solely on intermediated deals or old networks is increasingly a loser's game.

Fortunately, a new era of deal making has arrived. Driven by data services that give visibility into historically opaque private markets, New School investors are able to find the right companies earlier in their trajectory and build meaningful relationships with operators. When combined with new software technology that radically accelerates processes,

strategy and execution (not relationships and fund size) separate the winners from losers. The size of your team and the size of your network are no longer constraints. New School approaches also level the playing field by taking out biases that may be limiting firms' view of the world – instead relying on data to create more objective views of the market.

Deal makers that aren't aggressively embracing these new techniques are quickly being outpaced by their more aggressive peers. Recent research conducted by SourceScrub in 2020 showed that technology- and data-driven firms outperform their peers, returning +8.3% higher IRR and completing 55% more transactions.

We at SourceScrub believe that reinventing deal making is no longer optional but required. Based on our experience partnering with a number of the best New School firms, we've outlined a set of guiding principles that can help firms navigate these new, turbulent waters.

1. Expertise

- No business owner/operator wants a generic advisor or capital partner.
- Deal teams must be experts in their field. That means you must know
- what you're doing and have unique insights and experience in your
- markets. Whether large or small, firms must carefully craft a strategy
- or set of strategies and be able to follow through with these themes. It puts significant pressure on flawless execution of strategy so that firms can benefit from the insights and experience gained. We believe it's the consistency of strategy execution that creates a defensible island on which to stand.

2. Operating Partner Mindset

- Let's face it, money only goes so far in persuading operators and
- owners to transact. Businesses are looking for partners who can help
- them take their game to the next level. For Private Equity and VC firms,
- that means operating teams that can dig in with portfolios. For M&A,
- that means providing value-add services and advice well before, as well as after, transactions. If anything, the New School approach is a shift in mindset from being financiers and advisors to being partners.

3. Data Core

- Data is the heart of the New School. The internet has unlocked
- a near infinite set of private company signals for investors and M&A
- professionals to leverage. Acquiring, organizing, and applying private
- company data is now a mandatory capability. Best-in-class firms
- are aggressively restructuring teams and processes to capitalize on these new data sets. The insights generated provide firms with massive competitive advantage as they develop new and unique perspectives on their markets in near real time.

4. Direct Origination

- If New School is nothing else, it's about being proactive in your deal flow. Investor teams increasingly see direct sourcing as a critical part of their deal flow mix. New School allows even small firms to be highly
- targeted and efficient in outbound prospecting, enabling a whole new set of firms to go direct. Identifying and building relationships with promising prospects early in their company's life cycle allows investors to ensure they have a leg up during a banked process. For Bankers, New School revolutionizes the business development process by up-leveling the way in which sectors get covered and developed. M&A can be much more methodical in how they establish and build rapport with promising targets.

5. Aggressive Technology Adoption

- Software is upending deal sourcing. Most firms are well underway adopting CRM, and advanced firms are moving well beyond
- with tech stacks and processes that are fundamentally changing the core operations of the firm. Many organizations now have software development teams and data analysts working on proprietary tools, systems, and data models that give them meaningful advantage.
- In all situations, the adoption of tech requires dramatic change within the firm as new roles and processes are being implemented. With these changes come the ability to more precisely apply insights and strategy to investment process, accelerate and scale activities, and up-level your team's focus from administrative to strategic.

The New School Manifesto calls for radical change within Private Equity and M&A organizations. The challenges of this transformation are not to be trivialized, but adaptation isn't optional. Your competitors are already restructuring not only their deal flow, but also their firm's operations at large. For those who embrace the New School principals, not only will you outperform your peers, but you will also create a foundation for deal flow that will drive returns for years to come.

**Learn more
about the New School
of deal making at
www.sourcescrub.com**



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